



Japan
Display
Inc.
Group

Results of Third Party Committee Investigation of Improper Accounting Treatment and Revision of Prior Year Financial Reports

April 13, 2020

Japan Display Inc.

JDI apologizes to our shareholders for the delayed release of the FY19 3Q Financial Report and also for the revision of prior year Financial Reports caused by the identification of improper accounting treatment.

JDI will focus on preventing a recurrence of improper accounting and execute ethical business activities in an attempt to recover the trust of our shareholders.

Timeline Regarding the Fraud Investigation

Nov. 16, 2019	Received notice from a former employee about improper accounting treatment of previous year Financial Reports
Dec. 2, 2019	Establishment of a Special Investigation Committee including independent experts (Note 1)
Dec. 24, 2019	Transitioned to establishing a Third-Party Committee (Note 2) comprised of experts who are independent, neutral and fair (effective Dec. 26, 2019)
Feb. 13, 2020	Decided to extend the announcement of the FY2019 3Q Financial Report
Apr. 13, 2020	Received the investigation report from the Third-Party Committee

Note 1: Special Investigation Committee members

Chairman: Yasuhiko Fujitsu, Lawyer, Partner of Mori Hamada & Matsumoto

Member: Ken Ahararu, CPA of EY Forensic & Integrity LLC

Member: Takuya Okada, Executive officer at JDI, Lawyer who oversees JDI's legal and compliance

Note 2: Third-Party Committee members

Chairman: Shiro Kuniya, Chair of the third-party committee: a lawyer with Oh-Ebashi LPC & Partners

Member: Ken Aharari: a Certified Public Accountant with EY Japan Forensic and Integrity Services

Member: Norihiro Sekiguchi: a Lawyer with Oh-Ebashi LPC & Partners

Issues Identified by the Special Investigation Committee I

1. **Recording of fictitious inventory in the amount of JPY 10bn**

In the 4Q-FY13, WIP was overstated by JPY 3bn. This amount was later written off in the 1Q-FY14. In addition, the following improper accounting treatment was confirmed: from FY2015 to FY16, WIP in the amount of JPY 10bn was fictitiously recognized. Later, this amount was written off in stages from the 1Q-FY17 until the 2Q-FY18.

2. **Using sales FCT that differ from actual for retained and excess inv. and other deceptions to avoid proper accounting**

Confirmed improper accounting treatment: Data such as sales FCT that differed from actual conditions was used to avoid write-downs in regard to retained inventory and excess inventory in the following periods: the 4Q-FY13, 1Q-FY14, from 3Q-FY14 to the 1Q-FY16 and the 1Q-FY17.

3. **Transfer of expendables that should have been recorded as expenses were accounted as stored goods to manipulate profits**

Confirmed improper accounting treatment: From the 4Q-FY13 to the 2Q-FY19, some items that should have been recorded as expenses were accounted for as stored goods at some JDI plants which were required to reduced fixed costs.

4. **Manipulate profits by postponement of expenses and losses which should have been recorded and using capitalization**

Confirmed improper accounting treatment: Sums that should have been recorded as expenses was recorded as assets in 4Q-FY13 and the 4Q-FY14, and also in the 3Q-FY13 and the 3Q-FY15.

5. **Recording sales by selling to overseas sales distributors with repurchase conditions attached**

The following improper accounting treatment was confirmed: Sales were recorded in the 4Q-FY16 and the 1Q-FY17 even though repurchase conditions were attached to overseas sales distributors. In addition, in the 4Q-FY15, sales were recorded based on sales to domestic sales distributors that did not satisfy revenue recognition accounting requirements at the time of sale.

6. **Postponement of product warranty expenses**

Confirmed improper accounting treatment: In the 4Q-FY16 and the 3Q-FY17, warranty expenses which should have been recorded were postponed in order to manipulate expenses.

7. **Provisions for losses at overseas EMS and overseas manufacturing subsidiaries were postponed or not recorded**

Confirmed improper accounting treatment: With respect to the 4Q-FY13, the 3Q-FY15 and the 3Q-FY16, a loss attributable to the parent company given the relationship between the parent company and overseas EMS was not recorded. In addition, in the 4Q-FY15, a loss attributable to the parent company given the relationship between the parent company and overseas manufacturing subsidiaries was recorded as a provisional payment and the cost was postponed.

Issues Identified by the Special Investigation Committee III

8. **Avoiding impairment of fixed assets**

Confirmed improper accounting treatment: In the 3Q-FY16, the recording of an impairment loss was avoided in regard to idle assets with no expected restart of operations.

9. **Securing profits by including items that should have been treated as expenses in the acquisition price of fixed assets**

Confirmed improper accounting treatment: From the 4Q-FY15 to the 2Q-FY19, items that should have been treated as expenses were included in the acquisition price of fixed assets.

10. **Avoiding losses by transferring R&D expenditures to affiliated companies on a quarterly basis as an investment**

Confirmed improper accounting treatment: During negotiations for changing from an outsourcing to an investment contract in the 3Q-FY15, the recording of expense was avoided based on change of contract at the time when the probability of change of contract was not yet objectively recognized.

11. **Overstating operating profit by transferring operating expense to non-operating**

Confirmed improper accounting treatment: In Nov. 2013, an expense that was originally recorded as operating expense was intentionally transferred to non-operating expenses.

Cause Analysis Based on the Investigation Report

The improper accounting treatment that was identified by the Special Investigation Committee was initiated by a former JDI employee who notified JDI. However, conceivable direct causes of most of the fraud were too much authority concentrated in the hand of the former employee, insufficient checking procedures for use by superiors and the accounting division and pressure from superiors to achieve results. Conceivable indirect causes include long-term poor business performance, a corporate culture that prioritized operating profit, insufficient monitoring and auditing by the board of directors and the internal governance system and internal accounting & operational problems.

■ Cause Analysis

1. Direct Causes

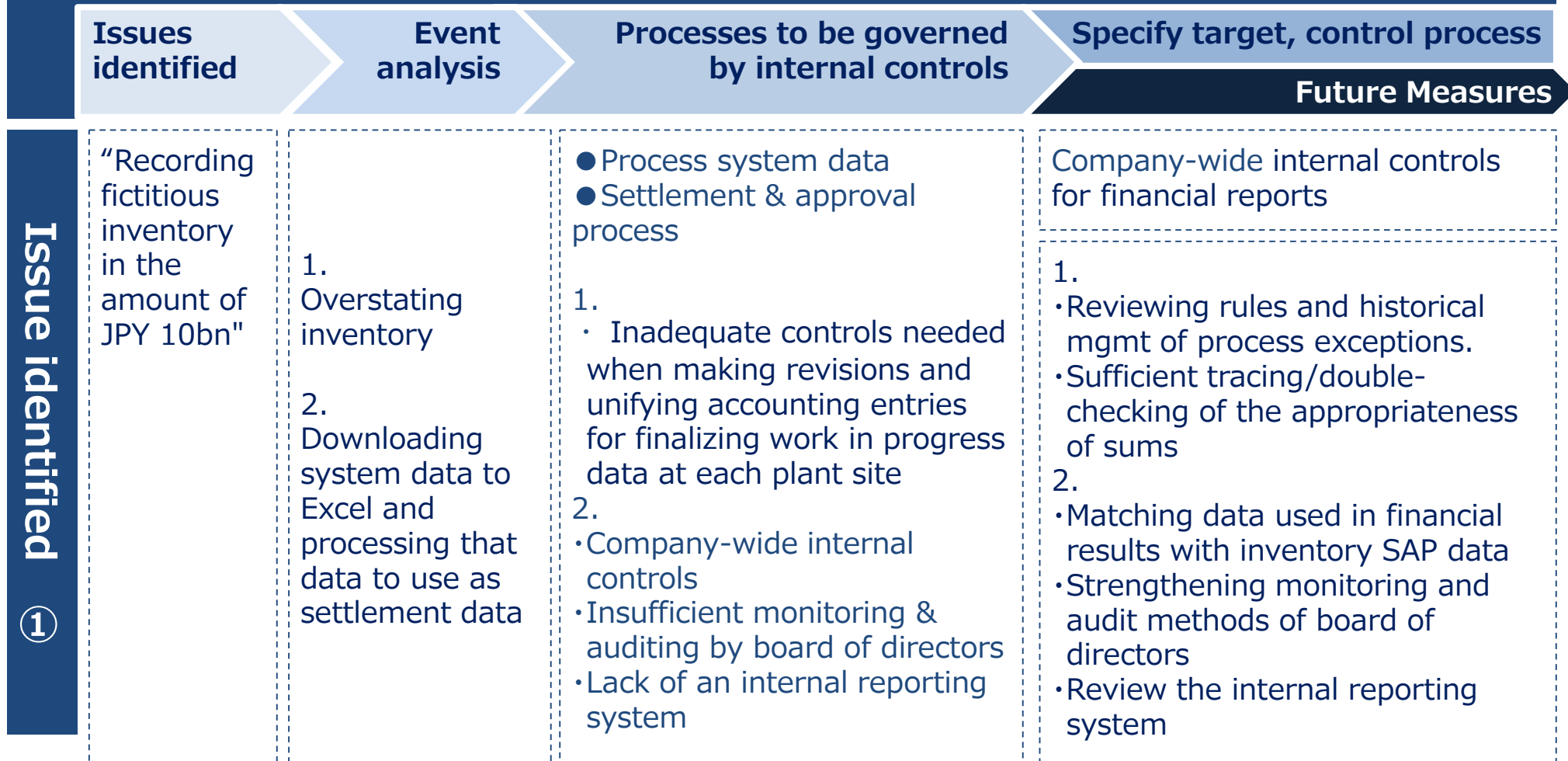
- (1) Concentration of authority
- (2) Insufficient checking procedures for utilization by senior management and the accounting division
- (3) Pressure from superiors to achieve results

2. Indirect Causes

- (1) Long-term poor business performance
- (2) Corporate culture that prioritized operating profit
- (3) Insufficient monitoring and auditing functions by board of directors and internal governance system
- (4) Internal accounting and operational problems

Response to the Issues Identified and Solutions (one example)

➤ Identification of flaws in internal controls (relevant to all issues identified)



Issue identified



Outline of Recurrence Prevention

Based on the Special Investigation Committee recommendations, JDI will establish a “Governance Improvement Committee” to ensure execution of management/governance systems, recurrence prevention and other control systems. The committee will be used to correct the above flaws and institute recurrence prevention, and maintain and operate adequate internal controls.

■ Outline of Recurrence Prevention

1. Governance Reform

- (1) Strengthen the monitoring and auditing functions of the board of directors
- (2) Review the audit methods of the auditor
- (3) Change the awareness of the management team
- (4) Improve the corporate culture by reforming compliance awareness utilizing continuous messaging from management

2. Accounting, Accounting Division Reform

- (1) Strengthen the quality and quantity of accounting personnel and more rotation of personnel through training sessions
- (2) Clarification of internal rules and operations regarding accounting procedures
- (3) Strengthen the controls/management of accounting procedures activities

3. Strengthening Internal Control Functions

- (1) Strengthen the internal reporting system
- (2) Review reporting channels and enhance awareness, provide strict assurances of anonymity & system integrity, public education
- (3) Review the targets of and methods for internal audits

Summary of Revisions to Prior Financial Reports (Key Points)

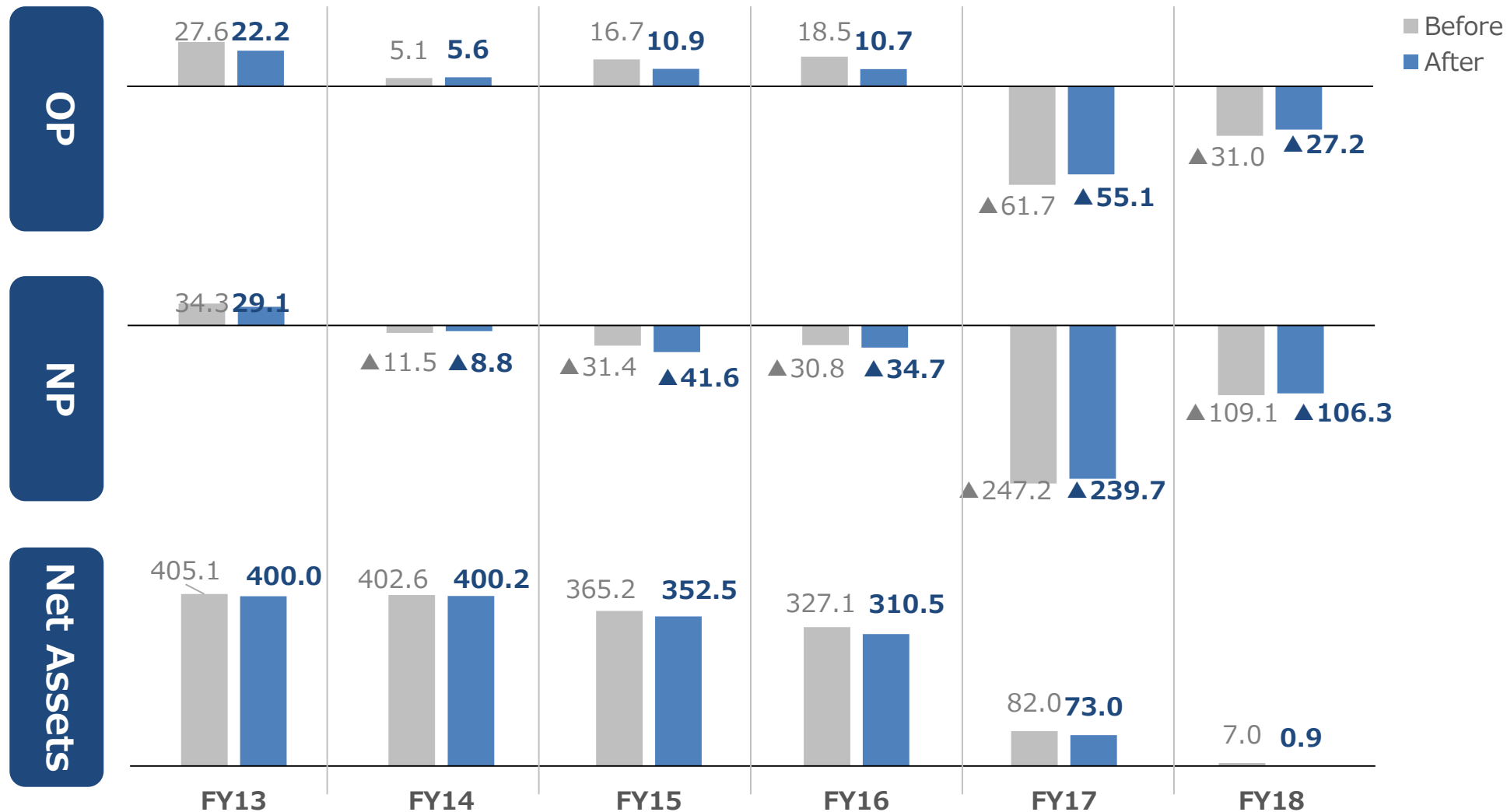
■ Net Profit Revision

(Unit : Billion yen)

	FY13	FY14	FY15	FY16	FY17	FY18	Prior FY (A)	FY19-1H (B)	Cumulative (A+B)
● Overstated Inventory									
✓ Recording fictitious inv.	▲3.5	+0.9	▲4.9	▲2.7	+7.1	+3.0	0	0	0
✓ Write-offs of overstated inv.									
● Overstated Fixed Costs									
✓ Reduced impairment etc.	0	0	▲0.1	▲4.0	+3.1	▲0.6	▲1.6	+0.2	▲1.4
● Expenses Not Recorded									
✓ Postponing product warranties etc.	▲2.4	+1.8	▲0.9	+0.1	+1.3	+0	▲0.2	+0.1	▲0.1
● Other									
✓ Audit diff., ancillary tax revisions etc.	+0.7	▲0	▲4.3	+2.7	▲3.9	+0.4	▲4.4	+4.2	▲0.2
Impact amounts									
Total	▲5.2	+2.7	▲10.2	▲3.8	+7.6	+2.8	▲6.1	+4.5	▲1.6

Summary of Revisions to Prior Financial Reports

(Billion yen)



Summary of Revisions to Prior Financial Report (Revised difference)

(Billion Yen)		FY13	FY14	FY15	FY16	FY17	FY18	FY19-1H
Pre-revision	Net sales	614.6	769.3	989.1	884.4	717.5	636.7	237.8
	Operating income(loss)	27.6	5.1	16.7	18.5	-61.7	-31.0	-35.6
	Net income (loss)	34.3	-11.5	-31.4	-30.8	-247.2	-109.1	-108.4
	Total assets	759.0	831.6	813.9	915.6	614.7	545.4	476.6
	Total net assets	405.1	402.6	365.2	327.1	82.0	7.0	-101.6

		FY13	FY14	FY15	FY16	FY17	FY18	FY19-1H
Post-revision	Net sales	614.6	769.3	989.0	883.0	719.0	636.7	237.8
	Operating income(loss)	22.2	5.6	10.9	10.7	-55.1	-27.2	-35.2
	Net income (loss)	29.1	-8.8	-41.6	-34.7	-239.7	-106.3	-103.8
	Total assets	755.4	829.6	801.8	900.0	605.0	538.5	474.3
	Total net assets	400.0	400.2	352.5	310.5	73.0	0.9	-103.3

		FY13	FY14	FY15	FY16	FY17	FY18	Past	FY19-1H	Cumulative
diff.	Net sales	-	-	-0.1	-1.4	+1.5	-		-	
	Operating income(loss)	-5.5	+0.5	-5.8	-7.8	+6.7	+3.8	-8.2	+0.5	-7.7
	Net income (loss)	-5.2	+2.7	-10.2	-3.8	+7.6	+2.8	-6.2	+4.5	-1.6
	Total assets	-3.5	-2.0	-12.1	-15.6	-9.7	-6.9	-6.9	-2.4	-2.4
	Total net assets	-5.2	-2.5	-12.7	-16.6	-9.0	-6.2	-6.2	-1.6	-1.6

